15 February 2011

SME Times

Credit rating can help SMEs in more ways than one

While Small and Medium Enterprises (SMEs) are always irked by the fact that banks and financial institutions are not forthcoming in giving loans to them, I feel SMEs too should make some effort so that they are able to get loans easily without sweat. If figures are accurate, I'm told that of more than 14 lakh SMEs operating in the country, only a meager 8.5% of bank loans go to them. The basic reason for this low rate is that most SMEs being from the unorganized sector, their credibility is apparently questionable.

The best way to resolve the issue, I would say, is to get a credit rating. While the government insists that credit rating is not a necessary requirement for any Micro and Small Enterprises (MSEs) to get a loan, rating no doubt serves as a trusted third party opinion on the creditworthiness of SMEs.

The benefits of getting a credit rating are manifold because it makes banks comfortable while dealing with them and thus helps in reducing the interest rates. It is an accepted fact that a good rating helps SMEs in obtaining faster and concessional credit from banks. As such credit rating helps for the capital provisioning requirement for SMEs. So undertaking credit and performance rating from a reputed and accredited independent rating agency, I believe, is energy rightly spent.

Today the rating agencies approved for the purpose are ICRA, Crisil, Care and Fitch. In the first scheme there are four rating agencies that have been empanelled by RBI. Apart from these four, two others are SMERA and ONICRA.

In most cases SMEs shy away from getting themselves rated due to the fear that they may not get a good rating or probably because the financial statements that they have prepared to get rated do not reflect a true and fair picture of their performance. However, credit rating agencies are mainly interested in the qualitative parameters because financial statements in SMEs do not give much idea about their performance. So they mostly look at their management and how sound the promoter is, or how resilient the SME has been.

I think it's time that SMEs look from the point of view of the bank. For banks, lending to a rated SME would reduce their capital charge as against lending to an unrated SME. In addition, banks need to have a benchmark to compare their own credit assessment. So credit rating seems to be the only rational route. Above that, whenever a client sees the credit rating of the company it wants to do business with, it gives him/ her confidence because of the credibility one earns from getting itself rated. Do we agree on this? We would definitely want to know if any of our readers have ever got their company rated. Did getting a credit rating help you in getting loans easily? For readers who have not got their companies rated, tell us why you went against it.